



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. February 28, 2006. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Clifford T. Hayes
Jeff Cilek

Trustee Pamela I. Ahrens was absent and excused. Executive Director Alan H. Winkle, Investment Officer Richelle Sugiyama, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon
Vickie Burnet
Brent Nye
Bill Palumbo
Dennis Fitzpatrick
Brian McGrath
Cody Barney
Geoff Bridges
Charlie Brown
Janet Jennings
Larry Johnson
Lucinda Smith

Mountain Pacific Investment Advisors
IPEA
Boise Schools
MPIA
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
Milliman
REAI
Milliman
EFIB
Mellon

John McCarrick
Bill Kincaid
Mike Barcelo
Mike Boren
Michael O'Leary

Mellon
ACS
Idaho Trust National Bank
Clearwater Advisors
Callan

MINUTES

Approval of the Minutes: By motion duly made by Trustee Hayes and seconded by Trustee Cilek, the Board unanimously approved the minutes of the January 24, 2006 meeting.

EXECUTIVE DIRECTOR

Status Update: Mr. Winkle reviewed his status report memorandum dated February 22, 2006. A detailed report on the Business Process Re-Engineering Project had been provided by Stacy Jones. That process continues to proceed as expected with the exception of resolving quality issues with the backfiles which were converted to images early in the process. Mr. Winkle expects a solution from the contractor this week.

Five applicants have been selected to interview for the Deputy Director position. Trustee Sullivan will assist with the interviews. Chairman Olson thanked Dr. Sullivan for taking the time to participate in the selection process. Responding to a question from the Chair, Mr. Winkle said interviews will be completed on Wednesday followed by reference checks.

Legislative Update: PERSI bills are progressing as expected through the legislative process. The bill concerning re-employment of retirees, along with other bills which were not proposed by PERSI, is making its way through the committees. The indemnification bill is scheduled for committee hearing. Mr. Winkle thanked Trustees for calling and talking to committee members about this issue.

New Employer: By motion duly made by Trustee Hayes and seconded by Trustee Sullivan, the Board unanimously approved the admittance of The Caribou Soil Conservation District with an effective date of March 1, 2006.

Indemnification: Copies of a draft Policy Memorandum from the Attorney General's Office related to its role in representing PERSI against various types of claims were distributed to the Trustees. Mr. Winkle discussed the main points, with Deputy Attorney General Brad Goodsell adding clarification when requested. The Policy Memorandum is intended to clarify issues related to indemnification of claims together with the proposed legislation. Mr. Winkle will keep the Trustees informed as the legislation and the finalization of the Policy Memorandum proceeds.

FISCAL

Fiscal Update/ Administrative and Portfolio Reports: Because Financial Officer James Monroe was at the JFAC PERSI budget-setting meeting, Senior Accountant Rhonda Yadon reviewed the monthly administrative and portfolio reports that had previously been provided to the Trustees. At the January meeting, Trustee Cilek had asked for percentage information from the fiscal year 2004 regarding PERSI administrative costs. Ms. Yadon provided that information and also explained how a change in average assets or total expenses affects the target expense ratio that is set each year. The pay increases authorized by Senate bill 1263 have been implemented with an effective date of January 29.

The Administrative and Portfolio reports show that total expenses are running at .47% (46.5 bp) of average net assets compared to the .52% (51.7 bp) budgeted. These reports cover seven months of the fiscal year 2006 and compare the annual projected budget and actual expenditures for PERSI's Base and Choice plans. This year we used a 7.75% assumed rate of asset growth for budgeting. Significant variances from the 7.75% assumed rate will have an impact on budget-to-actual comparisons.

Quarterly Financial Statements: Ms. Yadon then reviewed the quarterly financial statements for the year-to-date ended December 31, 2005 and 2004. An operating expense drop of approximately \$900 thousand is expected in fiscal year 2007 since depreciation on the Galena system will be completed in June 2006.

OTHER BUSINESS: Chairman Olson presented a PERSI lapel pin to Trustee Cilek who has been confirmed by the Senate as a PERSI Board Trustee for a five-year term. Trustee Hayes was also provided a PERSI pin.

PORTFOLIO

Callan DC/DB Report: Consultant Michael O'Leary had provided a written December 31, 2005 performance evaluation for the PERSI DB and DC funds. Reviewing those reports, he said PERSI outperformed its target policy index during the December quarter and for calendar 2005 the total fund achieved an 8.92% return. The Board's important strategic decisions had positive impacts during the quarter and significantly positive effects on the full year returns. The major international oriented bets were the biggest contributors. His report also noted that the total returns of the active equity managers, in combination with the passive portfolios, provided an overall result that outpaced market benchmarks and peers. Mr. O'Leary reviewed individual manager performance and answered questions from the Trustees. Regarding the performance of DC funds, he said Dreyfus Midcap continues to lag in relative terms and we will continue watching this fund.

Monthly Portfolio Update: CIO Robert Maynard reviewed the updated PERSI Investment Report dated February 27, 2006. That report shows the current value of the fund as \$9,655,515,491 with a change in market value

for the fiscal year of \$1,093,594,749, a 12.6% return. In his report and presentation, Mr. Maynard said February has seen generally sideways action after a robust January. The major market action continues to revolve around perceptions about the length and magnitude of the Federal Reserve increases in the short term interest rates, but a continued strong economy and good corporate profits (with some recent tech weakness) have supported the equity markets, while bonds at least held their own as concerns about incipient inflation eased and the end appeared in sight for Fed rate hikes. Emerging markets and the Pacific markets are the best performing capital markets for the fiscal year-to-date.

Bernstein Emerging, Zesiger and Genesis are the leading performers in absolute returns, although Bernstein Emerging and Genesis are behind their benchmarks. Zesiger, Donald Smith and Bernstein Global are the best performers against benchmark. The bond accounts provide little to cheer about either absolutely or relatively. Tukman and Mountain Pacific continue with their struggles, although the past two months have seen some progress. Private equity continues to have good absolute and relative performance.

Overall, the fund is ahead of the strategic benchmark for the fiscal year by 3.3%.

DEFINED CONTRIBUTION:

401(k) Trust/Custody Report: Lucinda Smith of Mellon Financial provided information on that firm. They currently have \$4.6 trillion under custody and are focused on investment in growth businesses. The company received several awards of excellence in 2005. The web-based Workbench program used by the PERSI fiscal department is being upgraded which is expected to assist staff in reconciling portfolio transactions. A May or June enhancement rollout with staff training is expected.

401(k) Record Keeping ACS Report: Bill Kincaid gave a preview of the redesigned Choice Plan website which is expected to replace the current design on April 12, 2006. The redesign will make navigating the web pages easier and faster for PERSI members. Mr. Kincaid reported on the fund balances in each of the eleven investment choices, saying the PERSI Total Return fund continues to be the first choice of our participants. 12% of eligible members are actively deferring a percentage of their salary into the 401(k). That is a 1% increase from 2004 when participation was around 11%. For account information and investment changes, members have a choice of speaking directly with a Customer Service Representative, using a voice response system or using internet screens. During 2005, 72% used internet screen transactions while only 11% chose to speak with a live representative.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. There was considerable discussion of the inverted yield curve. Clearwater Advisors doesn't believe it predicts a recession as there are different structural reasons for the curve. They will be allocating more funds to agencies such as Fannie Mae and Ginnie Mae after determining that their accounting reporting methods do not negatively affect returns.

Brian McGrath said Federal Reserve Chairman Bernanke has cited global forces holding intermediate and long rates down in the USA as one reason why the inverted curve does not necessarily imply an economic recession. Dennis Fitzpatrick worries about the inversion getting steeper. The fall in home sales and the rise in energy prices are making him nervous. He is less positive on the equity markets.

William Palumbo believes the Federal Reserve will continue to tighten until the economy does slow. The commodity markets are the most vulnerable. Rod MacKinnon joined Mr. Fitzpatrick in expressing concern over the economy slipping into recession. Foreign investors have a phenomenal amount of money available to invest. He thinks that even if the economic environment gets tougher, equities will continue to be profitable and can still do well.

FUTURE MEETINGS:

March 28, 2006, 8:30 a.m., Boise - PERSI office

April 25, 2006, 8:30 a.m., Boise – PERSI office

May 23, 2006, 8:30 a.m., Red Lion Templin's on the River, Post Falls, ID

Adjournment: At 10:54 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director